Supporting Statements for the Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11, FR Y-11S; OMB No. 7100-0244)

Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314, FR 2314S; OMB No. 7100-0073)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise and extend for three years the following nonbank subsidiary reports effective with the December 2002 reporting date:

(1) the Quarterly Financial Statements of Nonbank Subsidiaries of Bank Holding Companies (FR Y-11Q; OMB No. 7100-0244),
(2) the Report of Condition for Foreign Subsidiaries of U.S. Banking Organizations (FR 2314 a; OMB No. 7100-0073), and
(3) the Financial Information for Foreign Subsidiaries of U.S. Banking Organizations (FR 2314c; OMB No. 7100-0073).

The Federal Reserve also proposes to eliminate the following reports effective with the December 2002 reporting date:

(1) the Annual Financial Statements of Nonbank Subsidiaries of Bank Holding Companies (FR Y-11I; OMB No. 7100-0244) and
(2) the Report of Condition for Foreign Subsidiaries of U. S. Banking Organizations (FR 2314b; OMB No. 7100-0073), and

The Federal Reserve proposes to replace the eliminated FR Y-11I report with a new abbreviated annual report, the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11S). The revised FR Y-11Q would be retitled as the Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11). The revised FR 2314a report would be retitled as the Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314). The revised FR 2314c would be retitled as the Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314S).

The Federal Reserve proposes to streamline the existing nonbank subsidiary reporting framework for all non-functionally-regulated[1] nonbank subsidiaries[2]. The revised framework

[1] As distinguished from the term "functionally regulated" nonbank subsidiaries, which are entities in which the primary regulator is an organization other than the Federal Reserve, namely the Securities and Exchange Commission, Commodity Futures Trading Commission, state insurance commissioners, or state securities departments. Provisions of the Gramm-Leach-Bliley Act direct that the Federal Reserve must first rely on reports and information provided by the primary regulator for functionally regulated subsidiaries.

[2] The Federal Reserve is proposing to implement a new report, the Financial Statements of U.S. Nonbank

would both provide essential information to supervise and regulate non-functionally-regulated subsidiaries and reduce the burden on the industry. The proposed framework affects both the U.S. nonbank subsidiaries held by a U.S. bank holding company (FR Y-11Q and FR Y-11I) and foreign nonbank subsidiaries held by a U.S. bank holding company or U.S. bank (FR 2314 a, b, and c). Proposed revisions include:

- Implementing a uniform reporting form for all nonbank subsidiary filers;
- Reducing the burden by increasing or establishing consistent filing thresholds for all nonbank subsidiary filers;
- Establishing filing thresholds for reporters, consistent with risk-focused supervision, based on asset size and off-balance-sheet activity (absolute measures), plus operating revenues and equity capital (relative measures);
- Allowing no consolidation among filers; and
- Eliminating reporting for the smallest filers.

The proposed reporting changes would introduce more uniformity to several aspects of reporting requirements for nonbank subsidiaries and reduce regulatory burden. The total current annual burden for the FR Y-11 reports and the FR 2314 reports is estimated to be 44,119 hours and is estimated to decrease by 17,979 hours with these revisions.

Background and Justification

FR Y-11Q and FR Y-11I

The Federal Reserve implemented the FR Y-11 reports in 1970 to aid in determining the condition of bank holding companies (BHC) that are engaged in nonbanking activities and in monitoring the volume, nature, and condition of their nonbanking subsidiaries. Financial information on nonbank subsidiaries is essential for monitoring their potential impact on the BHC or its subsidiary banks' condition. Consolidated and parent company only reports do not reveal the extent of the problems that may exist within the nonbank subsidiaries because the size and operations of bank subsidiaries can mask the operations of nonbank subsidiaries in a consolidated report**.**

In addition to providing information used in supervising BHCs, the FR Y-11 series of reports provide essential information to assist the Federal Reserve Board in the formulation of regulations and supervisory policies. The data are also used by the Federal Reserve to respond to requests from Congress and the public for information on BHCs and their nonbank subsidiaries.

FR 2314 a, b, and c

In the late 1960s, staff at the Federal Reserve Bank of New York began collecting data annually on the Report of Condition of Foreign Subsidiaries (FR 314) and submitted the data to

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Subsidiaries Held by Foreign Banking Organizations (FR Y-7N) to collect separately nonbank subsidiary information from respondents currently filing the Nonbank Financial Information Summary (NFIS) report section of the Annual Report of Foreign Banking Organizations (FR Y-7). The new report is discussed in a separate FR Y-7 (OMB No. 7100-0125) memorandum.

the Federal Reserve Board. In 1978, the FR 314 report was changed to the Report of Condition for Foreign Organizations Controlled by Member Banks, Edge and Agreement Corporations, and Bank Holding Companies (FR 2314). In March 1989, the report title was changed to the current title and the a, b, and c forms based on filing threshold were created. The Federal Reserve has sole regulatory authority to approve the establishment of foreign subsidiaries of state member banks and Edge and agreement corporations under Sections 25 and 25A, respectively, of the Federal Reserve Act, and of BHCs under Section 4(c)(13) of the Bank Holding Company Act of 1956. Similarly, the Federal Reserve has principal supervisory responsibility for those foreign subsidiaries that are directly or indirectly owned or managed and controlled by U.S. BHCs, by state member banks, or by Edge and agreement corporations, and clear supervisory interests in those owned directly by national banks and nonmember banks that are owned by BHCs.

The FR 2314 is the only source of comprehensive and systematic data on the assets, liabilities, and earnings of the foreign bank and nonbank subsidiaries of U.S. banking organizations and is used to monitor the growth, profitability, and activities of these foreign companies. The data help the Federal Reserve identify present and potential problems of these companies, monitor their activities in specific countries, and develop a better understanding of activities within the industry and within specific institutions. This information, coupled with information from the Foreign Branch Reports of Condition (FFIEC 030; OMB No. 7100-0071), provides a picture of the breadth and scope of international banking operations for U.S. banking organizations both individually and in the aggregate.

Description of Information Collection

Current FR Y-11Q and FR Y-11I

Domestic bank holding companies file the FR Y-11 reports for their U.S. nonbank subsidiaries on an individual basis. The FR Y-11Q collects financial information quarterly about each nonbank subsidiary of a BHC with total consolidated assets of $150 million or more in which the nonbank subsidiary has total assets of 5 percent or more of the top-tier BHC's consolidated Tier 1 capital, or where the nonbank subsidiary's total operating revenue equals 5 percent or more of the top-tier BHC's consolidated total operating revenue. The reporting form consists of a balance sheet, income statement, off-balance-sheet items, information on changes in equity capital, and a memoranda section.

The FR Y-11I is filed annually by all BHCs for each of their nonbank subsidiaries that are not required to file a quarterly FR Y-11Q. The FR Y-11I report consists of similar balance sheet, income statement, off-balance-sheet, and equity capital information included on the FR Y–11Q. However, some of the items on the FR Y-11I are collected in a less detailed manner. In addition, the FR Y-11I also includes a loan schedule to be submitted only by respondents engaged in extending credit.

Current FR 2314 a, b, and c

The FR 2314 reports are collected from U.S. member banks, Edge and agreement corporations, and BHCs for their direct or indirect foreign subsidiaries. Separate reports are required for most subsidiaries, although they may consolidate affiliates that are principally engaged in a similar line of business and that are located in the same country. Newly established or acquired foreign subsidiaries are added to the reporting panel on a flow basis. The parent organization files the FR 2314a for their significant foreign subsidiaries (those with at least $2 billion in total assets or $5 billion in off-balance-sheet activity) quarterly and file the FR 2314a, b, or c annually for their other foreign subsidiaries as of December 31. Subsidiaries with total assets exceeding $250 million must be reported on the FR 2314a. Subsidiaries with total assets between $50 million and $250 million must be reported the FR 2314b. Subsidiaries with total assets less than $50 million must be reported on the FR 2314c. For nominee and inactive companies with total assets less than $1 million, the parent must provide only the name, location, and total assets of the company; the FR 2314c may be used for this purpose, or the information may be transmitted in letter format.

The FR 2314a collects information on assets and liabilities and includes several memoranda items on contingent liabilities and twelve supporting schedules. The supporting schedules provide detail on cash and balances due from depository institutions, securities, loans and lease financing receivables, other assets, claims on related organizations, deposits, other liabilities, liabilities to related organizations, changes in capital and reserve accounts, income and expenses, assets held in trading accounts, and past due and nonaccrual loans and leases. The FR 2314b collects somewhat less information on assets and liabilities, off-balance-sheet items, income and expenses, and securities. The FR 2314c is a brief, one-page report that collects information on total assets, equity capital, net income, and off-balance-sheet items.

Proposed Reporting Requirements

As part of the streamlining process, the Federal Reserve proposes report revisions that would create consistency among all nonbank subsidiary filers. The FR Y-11Q and FR 2314 would remain as two separate data series, but would be revised to collect items that are much more similar. Retaining two separate series affords the Federal Reserve the flexibility to revise one report to collect information that may be warranted for supervisory needs but not be pertinent or applicable to respondents of the other report. Most of the items collected on the proposed FR 2314 would mirror items currently collected on the FR Y-11Q. Memoranda items specifically tailored to collect information only pertinent to the respondent entity and its activities would accompany each report. The FR Y-11Q would be retitled as the Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11). The FR 2314a would be retitled as the Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314). These proposed forms would be filed for more significant nonbank subsidiaries on a quarterly or annual basis.

The top-tier BHC (for the FR Y-11S) or parent organization (for the FR 2314S) would file abbreviated reporting forms for smaller, less significant, nonbank subsidiaries annually, consisting of only four financial data items. A proposed new abbreviated annual report would be filed for small nonbank subsidiaries of U.S. bank holding companies, entitled the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11S). The current FR 2314c would be retitled as the Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314S). Also the top-tier BHC or parent organization would be exempt from reporting a large portion of the smallest nonbank subsidiaries. The current FR Y-11I and FR 2314b would be eliminated.

A detailed discussion of the proposed changes follows. The first section details the proposed reporting thresholds, the second section addresses the revised rules for consolidation, the third section lists in detail the proposed changes to the current forms and the proposed new abbreviated reports, and the last section discusses other proposed changes to the instructions.

Proposed Reporting Thresholds

The Federal Reserve proposes to further reduce burden and streamline nonbank reporting by increasing or setting uniform thresholds for quarterly, annual, and abbreviated annual filers. In accord with risk-focused supervision, the Federal Reserve proposes that information for larger, more significant and complex nonbank subsidiaries be reported more frequently and with more detail than smaller subsidiaries.

The criteria for quarterly filing would be based on absolute measures of asset size and off-balance-sheet activity, and on relative measures of operating revenue and equity capital. Top-tier BHCs or parent organizations must file a report quarterly for each individual nonbank subsidiary if the nonbank subsidiary is owned or controlled (as defined under Regulation Y) by a bank holding company[3] with total consolidated assets equal to or greater than $150 million **and** the nonbank subsidiary has:

- Total assets of at least $1 billion; **or**
- Total off-balance-sheet activity (includes commitments to purchase foreign currencies and U.S. dollar exchange, all other futures and forwards contracts, option contracts, and the notional value of interest rate swaps, exchange swaps and other swaps) of at least $5 billion; **or**
- Operating revenue equal to at least 5 percent of top tier bank holding company consolidated operating revenue[4]; **or**
- Equity capital equal to at least 5 percent of top tier bank holding company[5] consolidated equity capital[5].

Also, a nonbank subsidiary satisfying the criteria for any quarter during the calendar year would continue to be reported quarterly for the remainder of the calendar year even if it no longer satisfies the requirements for being reported quarterly.

The top-tier BHC or parent organization would file the entire report annually for nonbank subsidiaries not meeting any of the quarterly reporting criteria but with total assets of at least

[3] Even though the reporting entity for the FR 2314 filers can be a bank holding company, bank, or Edge or agreement corporation, the $150 million total consolidated assets criteria applies only at the bank holding company level.

[4] For nonbank subsidiaries held by a U.S. BHC that is, in turn, owned by a foreign banking organization, the operating revenue of the U.S. BHC is used as the consolidated top tier value.

[5] For nonbank subsidiaries held by a U.S. BHC that is, in turn, owned by a foreign banking organization, the equity capital of the U.S. BHC is used as the consolidated top tier value.

$250 million but less than $1 billion (regular annual filers)[6]. The top-tier reporters would file an abbreviated annual report for subsidiaries not meeting the quarterly reporting criteria with assets of at least $50 million but less than $250 million, **or** with total assets greater than one percent of the total consolidated assets of the top tier organization. They would be exempt from reporting all other subsidiaries not meeting the above filing criteria.

Under the proposed reporting criteria, only 15 percent of all current nonbank subsidiaries would be reported quarterly; they account for 86.6 percent of total assets of all current nonbank subsidiaries. Approximately 6 percent of all current nonbank subsidiaries would be reported on the annual reporting form; they represent 8 percent of all current total nonbank assets. Approximately 12 percent of all current nonbank subsidiaries would be reported on the abbreviated annual reporting form; they represent 4 percent of nonbank assets. Approximately 68 percent of all current nonbank subsidiaries would be exempt from reporting. By exempting these reporters, the Federal Reserve believes regulatory burden would be reduced without compromising the information needed for supervising these nonbank subsidiaries, which represent 1 percent of nonbank assets. An analysis by type of filer based on December 2001 data is presented below.

Quarterly filers. An analysis of the data from year-end 2001 shows the breakdown of potential quarterly respondents using the criteria above. For U.S. nonbank subsidiaries held by a U.S. BHC, 843 of the nearly 4,500 current subsidiaries (18.8 percent) would qualify for quarterly reporting on the FR Y-11. The $1.2 trillion in assets of these quarterly filers would represent 87.1 percent of the over $1.4 trillion in assets of all filers of this type.[7] Note that of the 843 quarterly filers, 686 were included solely based on the revenue or equity test. For foreign subsidiaries held by a U.S. BHC or U.S. bank, 123 of the over 2,000 subsidiaries (6.1 percent) would qualify for quarterly reporting on the FR 2314. The $659 billion in assets of these quarterly filers would represent 85.6 percent of the $770 billion in assets of all filers of this type.[8] The proposed threshold combines significant asset coverage and a low percentage of quarterly filers to reduce burden but would still provide valuable supervisory information.

Regular annual filers. The Federal Reserve also used data from year-end 2001 to determine which nonbank subsidiaries would be reported only on an annual basis but would provide the same detail as quarterly filers. For U.S. nonbank subsidiaries held by a U.S. BHC, 239 of the nearly 4,500 nonbank subsidiaries (5.3 percent) would be regular annual filers and be reported on the FR Y-11 annually. The $108 billion in assets of these regular annual filers would represent 7.6 percent of the over $1.4 trillion in assets of all nonbank subsidiaries of this type. For foreign subsidiaries held by a U.S. BHC or U.S. bank, 128 of the over 2,000 subsidiaries (6.3 percent) would be regular annual filers and would be reported on the FR 2314 annually. The $66 billion in assets of these regular annual filers would represent 8.6 percent of the $770 billion in

[6] The Federal Reserve may require certain nonbank subsidiaries to file quarterly if they have significant risk exposures.
[7] Under the current reporting series, for this filer type there were 922 quarterly filers (21 percent of total filers) with $1.2 trillion in assets (83 percent of assets of total filers) as of year-end 2001.
[8] Under the current reporting series, for this filer type there were 63 quarterly filers (4 percent of total filers) with $620 billion in assets (77 percent of assets of total filers) as of year-end 2001.

assets of all filers of this type. The Federal Reserve believes the threshold for regular annual filers is appropriate since it would include nonbank subsidiaries that are not large enough to be reported quarterly, but are of such size that supervisors would need detailed financial information yearly.

Abbreviated annual filers. The Federal Reserve proposes that a portion of filers among the two types of nonbank subsidiaries be classified as abbreviated annual reporters. Abbreviated annual filers would report only four items of financial information annually. For U.S. nonbank subsidiaries held by a U.S. BHC, 468 of the nearly 4,500 subsidiaries (10.4 percent) would be abbreviated annual filers and would be reported on the FR Y-11S. The $55 billion in assets of these abbreviated annual filers would represent 3.9 percent of the over $1.4 trillion in assets of all filers of this type. For foreign subsidiaries held by a U.S. BHC or U.S. bank, 286 of the over 2,000 subsidiaries (14.1 percent) would be abbreviated annual filers and reported on the FR 2314S. The $34 billion in assets of these abbreviated annual filers would represent 4.5 percent of the $770 billion in assets of all filers of this type. The Federal Reserve believes that the abbreviated annual filing threshold is appropriate. A large majority of filers would be relegated to abbreviated filer status (thus reducing burden). The Federal Reserve needs to capture basic information on these subsidiaries, since the four items to be collected serve as good indicators of higher business volume, risk, and/or complexity in small-sized subsidiaries. Even though the total assets for the abbreviated filers may be considered immaterial, taken as a whole, these entities still represent a significant amount (11.5 percent) of the entire number of nonbank subsidiaries. The Federal Reserve needs to continue to review minimum financial data from these entities in order to monitor for potential developments that may pose risks to the overall operations of the bank holding company or parent organization.

Exempt entities. The Federal Reserve also proposes to exempt nonbank subsidiaries below $50 million in total assets and with total assets less than 1 percent of the top-tier BHC or parent organization consolidated total assets. For U.S. nonbank subsidiaries held by a U.S. BHC, 2,946 of the nearly 4,500 filers (66 percent) would be exempt from reporting. The $19 billion in assets of these subsidiaries would represent 1.4 percent of the over $1.4 trillion in assets of all subsidiaries of this type. For foreign subsidiaries held by a U.S. BHC or U.S. bank, 1,496 of the over 2,000 filers (74 percent) would be exempt from reporting. The $10 billion in assets of these subsidiaries would represent 1.3 percent of the $770 billion in assets of all subsidiaries of this type. The Federal Reserve believes that providing this reporting relief is significant and appropriate, while retaining the collection of limited information (abbreviated reports) from entities that are of some significance to the consolidated organization.

Consolidation

For some current FR 2314 filers, consolidation of certain subsidiaries owned by other subsidiaries is allowed. The Federal Reserve proposes that no consolidation be allowed in these revised reports, particularly since substantial regulatory relief is built in to the tiered threshold reporting structure.[9] Note that the breakdown of filers listed above does not include about 200 entities that were consolidated into current FR 2314 reporters (no asset data for individual

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[9] FR 2314 respondents that currently consolidate data will be permitted to report on a consolidated basis for December 2002 and March 2003 reporting periods to allow time to adjust their systems.

entities was available for the consolidated filers). Therefore the breakdown may change. However, it is expected that many (if not most) of the consolidated entities are small in size and may be eliminated from reporting altogether according to the proposed $50 million reporting threshold.

Proposed FR Y-11 (formerly FR Y-11Q)

The Federal Reserve proposes to revise the FR Y-11Q. The current Memoranda section would be moved to a new schedule: Schedule BS-A – Loan and Lease Financing Receivables. Three more new schedules would be created from line items transferred from other schedules and new items: Schedule BS-M – Memoranda, Schedule IS-A – Changes in Equity Capital, and Schedule IS-B – Changes in Allowance for Loan and Lease Losses.

Income Statement (Schedule IS). There are three proposed revisions to the income statement.

- Modify item 4, “Provision for credit losses” as “Provision for loan and lease losses.”
- Combine item 6.a, “Realized gains and losses on held-to-maturity securities,” and 6.b, “Realized gains and losses on available-for-sale securities,” and report as “Realized gains (losses) on securities not held in trading accounts.”
- Eliminate the three-way breakout of noninterest expense item 7.b, “Pertaining to the organization,” between items 7.b. (1), “Salaries and employee benefits,” 7.b. (2), “Expenses on premises and fixed assets, and 7.b. (3), “Other noninterest income expense” and replace with a single item, “Pertaining to related organizations.”

Changes in Equity Capital (new Schedule IS-A). Eliminate the two-way breakout of item 4, “LESS: Cash dividends declared,” between item 4.a, “Preferred,” and Item 4.b, “Common,” and replace with a single combined item “LESS: Cash dividends declared.”

Changes in Allowance for Loan and Lease Losses (new Schedule IS-B). The Federal Reserve proposes to revise and expand the allowance for loan and lease loss items collected on the Y-11Q. Items in this schedule would incorporate some existing items as well as a few new items.

- Move existing item (currently collected in the Memoranda section) “Recoveries” and “Less: Charge-offs” to this schedule. Also add “Provision for loan and lease losses,” and “Balance at the end of the current period,” which are also reported on the Income Statement and Balance Sheet, respectively.
- Add new items, “Balance most recently reported for end of previous calendar year,” and “Adjustment,” to reconcile the allowance for loan and lease losses.

Balance Sheet (Schedule BS). There are several proposed changes to the balance sheet.

- Delete item 3, “Federal funds sold and securities purchased under agreements to resell.”
- Eliminate the two-way breakout of item 7, “Other real estate owned,” between item 7.a,

"Real estate acquired in satisfaction of debt previously contracted," and item 7.b, "Other real estate owned," and replace with a single combined item "Other real estate owned."

- Move item 8, "Investments in other companies," and item 9, "Intangible assets," item 9.a, "Goodwill," item 9.b, "Mortgage servicing assets," and item 9.c, "Other identifiable intangibles," to a new Memoranda schedule.
- Add a new item for "Claims on nonrelated organizations" to the asset section of the Balance Sheet to provide a subtotal consistent with the FR 2314. This subtotal item is consistent with collection of balance sheet information on other nonbank report forms and standard financial statements.
- Move the related breakout of item 11, "Balances with related institutions, gross," – item 11.a, "Balances due from bank holding company (parent companies only), gross," item 11.b, "Balances due from subsidiaries banks of bank holding company gross," and item 11.c, "Balances due from other nonbank subsidiaries of bank holding company gross," to a new Memoranda schedule. The total of these line items "Balances due from related institutions, gross" would be collected on the Balance Sheet.
- Delete item 13, "Deposits."
- Combine the two-way breakout of item 15, "Borrowings with a remaining maturity of one year or less (including federal fund purchased)," between item 15.a "Commercial paper" and item 15.b, "Other borrowings with a remaining maturity of one year or less (including Federal Fund purchased)," on the Balance Sheet with a separate breakout of "Commercial paper" on a new Memoranda schedule.
- Add a new item "Liabilities to nonrelated organizations" to the liability section of the Balance Sheet to provide a subtotal of liabilities to nonrelated organization separate from total liabilities.
- Move the related breakout of item 18, "Balances due to related institutions, gross," –item 18.a, "Balances due to bank holding company (parent companies only), gross," item 18.b, "Balances due to subsidiaries banks of bank holding company gross," and item 18.c, "Balances due to other nonbank subsidiaries of bank holding company gross" to a new Memoranda schedule. The total of these line items would be reported on the Balance Sheet as "Balances due to related institutions, gross."
- Combine the two-way breakout of preferred and common stock – item 20.a, "Perpetual preferred stock (including related surplus)" and item 20.b, "Common stock," and replace with a single combined item "Stock." However, "Perpetual preferred stock" would be broken out separately on a new Memoranda schedule to monitor the amount of trust perpetual preferred stock and trust preferred securities that is included in this item.

Off-balance-sheet Items. Move Item 32, "Assets sold with recourse," to a new Memoranda schedule.

Loan and Lease Financing Receivables (new Schedule BS-A). Items in this section are currently collected in a Memoranda section and would be revised as follows.

- Combine the two-way breakout of item 6, "Loans and lease financing receivables," between item 6.a, "To U.S. addressees," and item 6.b, "To non-U.S. addressees," and replace with a single item. "Loans to non-U.S. addressees" would be separately broken out on a new Memoranda section.

- Retitle current item 7.d, “Loans and leases restructured and included in past due and nonaccrual loans” as “Restructured loans and leases in items 7.a through 7.c above (and not reported in item 6 above) and delete current item 7.e, “Loans and leases restructured and in compliance with modified terms.”
- Move item 8.a, “Charge-offs” and item 8.b “Recoveries,” to a new Schedule IS-B, “Changes in Allowance for Loan and Lease Losses.”

Memoranda (new Schedule BS-M)

Move the following items (in addition to items noted above) to a new Memoranda section: the related breakout of item 9 “Loan servicing portfolio,” item 9.a, “Number of loans in servicing portfolio (report the actual number),” and item 9.b, “Dollar amount of loans in servicing portfolio,” item 10, “Loans that have been securitized and sold without recourse with servicing retained (year-to-date);” item 11, “Earning assets;” all components of item 12 “Other assets” – 12.a, “Accrued interest receivable,” 12.b. “Prepaid expenses,” 12.c “Net deferred tax assets,” and 12.d, “Accounts receivable;” item 13, “Borrowings that reprice within one year;” and the breakout of item 14, “Other liabilities,” – 14.a, “Expenses accrued and unpaid,” 14.b, “Net deferred tax liability,” and 14.c, “Accounts payable.”

Proposed FR 2314 Report Form (formerly FR 2314a)

The Federal Reserve proposes to make the revisions listed below to the FR 2314a. Schedule C, “Loans and Lease Financing Receivables,” would be retitled as Schedule BS-A. Schedule J, “Income and Expenses,” and Schedule I, “Change in Capital and Reserve Accounts,” would be moved to the beginning of the report consistent with standard financial reporting presentation. Schedule J would be retitled as Schedule IS, “Income Statement,” and Schedule I would be split into two schedules, Schedule IS-A, “Changes in Equity Capital,” and Schedule IS-B, “Changes in Allowance for Loan and Lease Losses.” All other supporting schedules would be removed with items transferred to a new memoranda schedule (Schedule BS-M) or deleted.

Income Statement (new Schedule IS). There were several proposed changes to the income statement.

- Combine the following items: 1.a.(1), “Interest and fees on loans and lease financing receivables”; 1.a.(2), “Interest on balances due from depository institutions”; 1.a.(3), “Interest on bonds, notes, and debentures, and dividends on stock”; 1.a.(4), “Interest income and dividends from assets held in trading accounts” into a single item for “Interest and fee income from nonrelated organizations.”
- Add the following items to collect additional information on noninterest income from nonrelated organizations: “Service charges on deposit accounts”; “Investment banking, advisory, brokerage, and underwriting fees and commissions”; “Venture capital revenue”; “Net servicing fees”; “Net securitization income.” Modify the current item 5.a.(5), “Other commissions, fees, etc” as “Insurance commissions and fees.” These items are needed because noninterest income as a percentage of total revenue has grown significantly in recent years at the parent organization and at the subsidiary level. Due to the increased importance of and additional complexity in noninterest income, a more detailed breakdown is required.

This presentation is also consistent with the detail provided in the parent organization's financial reports.

- Retitle item 5(a)(4), "Gains (losses) and fees from trading assets and liabilities" to "Trading revenue."
- Eliminate item 5.a(1), "Equity in undistributed earnings of nonrelated organizations," and item 5.a(2), "Net gain (loss) on foreign exchange transactions."
- Combine the components of the item 7.a, "Noninterest expense pertaining to nonrelated organizations, (1) Salaries and employee benefits, (2) Expenses of premises and fixed assets, (3) Other noninterest expense" into a single item.
- Add the item "Equity in undistributed income (loss) of subsidiary(s). Addition of this item is consistent with items necessary for the determination of net income on other bank and nonbank financial reports.

Balance Sheet (new Schedule BS). There are several proposed changes to the balance sheet.

- Combine the items 1.a, "Noninterest-bearing balances and currency and coin" and 1.b, "Interest-bearing balances" into a single item "Cash and balances due from depository institutions."
- Move item for "Other real estate owned" from Schedule D to the Balance Sheet.
- Delete item 6, "Customers' liability to this subsidiary on acceptances outstanding."
- Combine the items 9.a, "Stock and other equity interests in related organizations" and 9.b, "Other balances" in related organizations into a single item for "Balances due from related institutions, gross."
- Combine the items 11.a, "Total noninterest-bearing balances" and 11.b, "Interest-bearing balances" into a single item for "Deposits" and move to the memoranda section.
- Break out the item 12, "Other borrowed money (including mortgage indebtedness and obligations under capitalized leases)" into the components "Borrowings with a remaining maturity of one year or less (including commercial paper and federal funds purchased)" and "Borrowings with a remaining maturity of more than one year (including subordinated debt and limited-life preferred stock and related surplus)." Breaking out these components is needed because of supervisory interest in the maturity of borrowed money in identifying liquidity concerns and risk profiles. This breakout has shown to be significant on other nonbank reports.
- Delete item 13, "Subsidiary's liability on acceptances executed and outstanding."

Off-balance-sheet Items. Combine the items "Financial standby letters of credit and foreign office guarantees" and "Performance standby letters of credit and foreign office guarantees" into a single item for "Standby letters of credit and foreign office guarantees."

Cash and Balances Due from Depository Institutions (former Schedule A). Move the following items to the memoranda section: item 2, "Balances due from depository institutions in the U.S."; item 3, "Balances due from banks in foreign countries (1) Foreign branches of U.S. banks, (2) Other banks in foreign countries"; item 4, "Balances due from foreign central banks." Delete item 1, "Cash items in process of collection, unposted debits, and currency and coin."

Securities (former Schedule B). Eliminate the following items: item 1, "Securities of all governments and official institutions"; item 2, "Other debt securities"; and item 4, "Total." Move item 3, "Equity interest in nonrelated organizations" to the Memoranda section as a single item (eliminate breakout between held-to-maturity and available-for-sale, each measured at amortized cost and fair value).

Loans and Lease Financing Receivables (former Schedule C, new Schedule BS-A). Combine the following components of item 2, "Loans to and acceptances of U.S. and foreign banks – (a) To commercial banks in the U.S. (including their IBFs), (b) To foreign branches of U.S. banks, (c) To other banks in foreign countries," into a single item. Also delete item 5, "Loans to foreign governments and official institutions (including foreign central banks)," and item 7, "Lease financing receivables (net of unearned income)," which would be included in "All other loans." Also delete item 9, "LESS: any unearned income on loans reflected in items 1-8 above." Individual loan items would be reported net of unearned income going forward.

Other Assets (from Schedule D). Move item 1, "Accrued interest receivable" to the memoranda section and move item 2, "Other real estate owned" to the balance sheet. Eliminate item 3, "All other (itemize amounts that exceed 25% of this item)." Add the following as memoranda items: "Prepaid expenses"; "Net deferred tax assets"; "Accounts receivable"; "Intangible Assets." Collection of these specific other asset items is consistent with items collected on other bank and nonbank financial reports. Analysis of the significant all other asset amounts reported show that these are the most commonly cited items.

Claims on Related Organizations (former Schedule E). Eliminate the break out of components of claims on related organizations: item 1, "Bank deposits (including placements)"; item 2, "Assets held in trading accounts"; item 3, "Other claims."

Deposits (former Schedule F). Eliminate the following items for deposits of: item 1, "Individuals, partnerships, and corporations (including all certified and official checks)"; item 4, "Foreign governments and official institutions (including foreign central banks)"; item 6, "All other deposits." Combine items 2, "Deposits of U.S. banks (including IBFs and foreign offices of U.S. banks)" and 3, "Deposits of foreign banks" into a single item and move to the memoranda section.

Other Liabilities (former Schedule G). Move item 1, "Expenses accrued and unpaid" to the memoranda section. Delete item 2, "All other (itemize amounts that exceed 25% of this item)." Add the following as memoranda items: "Net deferred tax liability"; "Accounts payable." Collection of these specific other liability items is consistent with items collected on other bank and nonbank financial reports. Analysis of the significant all other liability amounts reported show that these are the most commonly cited items.

Liabilities to Related Organizations (former Schedule H). Eliminate the break out of components of liabilities to related organizations: item 1, “Deposits of banks”; item 2, “Trading liabilities”; item 3, “Other liabilities.”

Assets held in Trading Accounts (former Schedule K). Move all of the following items held in trading accounts to the memoranda section: item 1, “Securities of U.S. government and its agencies”; item 2, “Securities of all foreign governments and official institutions”; item 3, “Equity securities”; item 4, “Corporate bond, notes and debentures”; item 5, “Revaluation gains on interest rate, foreign exchange rate, and other commodity and equity contracts”; and item 6, “Other (including commercial paper).”

Past Due and Nonaccrual Loans and Leases (former Schedule L). Move all of the following items to the new Schedule BS-A, “Loans and Lease Financing Receivables”: item 1, “Past due 30-89 days and still accruing”; item 2, “Past due 90 days or more and still accruing”; item 3, “Nonaccrual”; Memoranda item 1, “Restructured loans and leases.”

Proposed Abbreviated Reporting Requirements (FR Y-11S and FR2314 S)

The new abbreviated annual reports would comprise only four financial data items: net income, total assets, total equity capital, and total off-balance-sheet items.[10] The Federal Reserve believes that these four financial items are essential to supervisory needs and represents the minimum amount of information to monitor the financial condition of the smaller, less significant, nonbank subsidiaries. These are the same four financial data items currently collected as part of the current FR 2314c. These reports would be filed by the top-tier BHC or parent organization of smaller nonbank subsidiaries as discussed in the reporting thresholds section.

The current FR 2314c would be retitled as the Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314S). A new report, the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11S) would be implemented to collect the four financial items from U.S. nonbank subsidiaries.

Instructions for All Reports

In addition to the proposed report form revisions, instructions would be revised and clarified in an attempt to achieve greater consistency among all nonbank reports. In accord with the accounting basis for all other regulatory reports filed with the Federal Reserve, the reporting basis for the FR 2314 would be revised to encourage respondents to follow U.S. generally accepted accounting principles (GAAP). The Federal Reserve proposes to modify reporting instructions to parallel any revisions the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) instructions in 2002 that have not already been incorporated within each

[10] The FR 2314S would retain structure information currently reported on the FR 2314c.

report.   Also, the Federal Reserve proposes to clarify the reporting instructions to exempt nonbank subsidiaries that are no longer reportable due to the revisions made to the Report of Changes in Organizational Structure (FR Y-10; OMB No. 7100-0297) in 2001.

Time Schedule for Information Collection

The FR Y-11Q is currently filed quarterly as of the end of March, June, September, and December, and the FR Y-11I is currently filed annually as of the end of December. The FR Y-11 series currently must be submitted within sixty days after the date of the report.

The data from the FR Y-11 series of reports are not given confidential treatment and are available to the public. FR Y-11Q data are available through the National Technical Information Service (NTIS).

The FR 2314a is currently filed quarterly as of the last calendar day in March, June, September, and December for those institutions with significant asset size or volume of off-balance-sheet activity. The 2314 a, b, and c are currently filed annually as of December 31 for all other respondents. Respondents file the FR 2314 reports with the Federal Reserve Bank in the District in which the U.S. parent organization is located, no later than 45 calendar days after the report date.   The data are not published routinely.

The proposed FR Y-11 and FR 2314 would be reported as of the end of March, June, September, and December and would be submitted within sixty days after the date of the report. Meeting the thresholds for filing quarterly would be self determined by the respondent and ascertained as of the reporting date. The proposed FR Y-11S and FR 2314S would be reported annually as of the end of December and would also be submitted within sixty days after the date of the report.

The proposed FR Y-11 reports are not confidential and data are available to the public. The Federal Reserve proposes that data collected on the proposed FR 2314 reports not be given confidentiality and also made available to the public.

Legal Status

The Board's Legal Division has determined that the following statutes and regulation authorize the Board to require the current reports:

FR Y-11 and FR Y-11S:	12 U.S.C. §§1844 (c) and 12 CFR 225.5(b)
FR Y-2314 and FR 2314S:	12 U.S.C. §§324, 602, 625, and 1844(c)

The Board's Legal Division has determined that the FR Y-11 and FR 2314 reports are not considered confidential. However, a BHC may request confidential treatment pursuant to sections (b)(4) and (b)(6) of the Freedom of Information Act [5 U.S.C. §§552(b)(4) and (b)(6)]. Section (b)(4) provides exemption for "trade secrets and commercial or financial information obtained from a person and privileged or confidential." Section (b)(6) provides exemption for "personnel and medical files and similar files the disclosure of which would constitute a clearly unwarranted invasion of personal privacy."

Estimate of Respondent Burden

The following table shows the estimated annual reporting burden for the current and proposed reports. The number of respondents is based on the number of nonbank subsidiaries, not the number of top-tier BHCs or parent organizations. The Federal Reserve estimates that the proposed changes to the nonbank subsidiary reporting requirements would likely decrease the annual burden from 44,119 to 26,140 hours. This reduction of almost 41 percent is attributed to (1) increasing the thresholds for quarterly and regular annual reporting, (2) implementing a uniform report with consistency between all items and item instructions for each type of nonbank subsidiary filer, (3) reducing the number of items filed by foreign subsidiaries of U.S. banking organizations, (4) reducing the number of items to be reported by less significant annual filers to just four items, and (5) eliminating reports filed by the smallest subsidiaries.

	Number of respondents	Annual frequency	Estimated average hours per response	Estimated annual burden hours
Current				
FR Y-11Q	922	4	6.35	23,419
FR Y-11I	3,576	1	3.24	11,586
Total	4,498			35,005
Proposed				
FR Y-11 *(quarterly)*	843	4	6.0	20,232
FR Y-11 *(annual)*	239	1	6.0	1,434
FR Y-11S	468	1	1.0	468
Total	1,550			22,134
Change				-12,871
Current				
FR Y-2314a *(quarterly)*	63	4	10.5	2,646
FR Y-2314a *(annual)*	176	1	10.5	1,848
FR Y-2314b	296	1	8.0	2,368
FR Y-2314c	1,501	1	1.5	2,252
Total	2,036			9,114
Proposed				
FR Y-2314 *(quarterly)*	123	4	6.0	2,952
FR Y-2314 *(annual)*	128	1	6.0	768
FR Y-2314S	286	1	1.0	286
Total	537			4,006
Change				-5,108
Total Current				44,119
Total Proposed				26,140
Total Change				-17,979

Based on an average hourly cost of $20, the estimated annual cost to the public would decrease from $882,380 to $522,800.

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing the FR 2314 is $157,168. The estimated cost for collecting and processing the FR Y-11 reports is $280,733 annually.

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Attachment